Case

Akhuwat: Measuring Success for a Non-profit Organization

Asian Journal of Management Cases
16(1) 100–112, 2019

DOI: 10.1177/0972820119825973
journals.sagepub.com/home/ajc
SAGE

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Abstract

Dr Amjad Saqib, founder and CEO of *Akhuwat*—a non-profit interest-free microfinance organization—faced a dilemma in July 2014. He was worried if the organization was actually making an impact—the *real* impact—that he originally intended. The conventional measures being used to assess Akhuwat's performance, that is, financial performance, loan disbursement and recovery rates, had all shown impressive signs. For instance, the recovery rate had always been above 99 per cent since Akhuwat's inception. Still, Dr Saqib was concerned, as he wanted to know whether these measures had actually translated into achieving his original intention of founding Akhuwat, which was to increase tolerance, compassion, voluntarism and happiness, in the target communities. This concern was further aggravated in the backdrop of a rapid expansion plan that Akhuwat was following since 2010.

Back in 2001, Dr Saqib founded Akhuwat in order to provide an alternative to conventional microfinance institutions, which he saw as exploitative and against the Islamic principles of mutual support, as these charged very high interest rates from poor borrowers. Akhuwat, on the other hand, charged zero interest on its microcredit products. It relied on charity and donations, instead of bank loans, as its lending base and for covering operational expenses. The organization underwent a rapid expansion after a credit injection from the provincial government in 2010, resulting in a sevenfold increase in its loan portfolio, which rocketed to PKR 2,460 billion in 2014, and a fivefold increase in the number of branches, which stood at 289 across the country in 2014. This transition also brought many changes and challenges to the working style and performance monitoring of Akhuwat, which had traditionally operated in a rather informal manner. The case highlights Dr Saqib's worries regarding the effectiveness of these measures in achieving Akhuwat's intended impacts.

Keywords

Microfinance, performance management, poverty alleviation, interest-free loans, monitoring and evaluation

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Introduction

It was 12 July 2014. Dr Amjad Saqib had just returned from his address at the Annual Board Meeting for Akhuwat, an interest-free microfinance organization that he had founded in 2001. Akhuwat aimed to provide financial capital to the poor in the form of loans that would have to be repaid in full but without additional interest charges. At the meeting, he had proudly presented the consolidated progress reports, including the figures on loan disbursement and recovery (refer Table 1) from all of the organization's branches. Just like the several preceding years, the reports revealed an exceptional recovery rate and an increase in the number of active loans. As he sat in his office, he felt grateful for the progress Akhuwat had made. However, lately, he had begun to question whether those indicators were enough to evaluate Akhuwat's real achievements. He wondered if the organization could adopt a performance management system where its social impacts could be measured along with the financial ones.

Akhuwat: Microfinance with A Difference?

Even though Akhuwat was considered a microfinance institution (MFI), Dr Amjad Saqib and his team felt that it was unlike any other MFI in Pakistan.

Origins of Microfinance

Microfinance was conceived as a means of providing access to financial services in the form of credit, leasing, insurance and savings to the poor. In 1983, Dr Mohammad Yunus established Grameen Bank—literally meaning *village bank* in Bengali—to realize his vision of providing self-support to the poorest of people through loans on easy terms. The bank became a source of inspiration to similar MFIs in over 100 countries. Traditional commercial banks were reluctant to lend money to anyone unable to offer some form of collateral. MFIs, on the other hand, worked on the assumption that the poor could manage their own financial affairs, given suitable conditions. Dr Yunus won the 2006 Nobel Prize for Peace for his contributions to the microfinance system.

In a typical microfinance system, loans were given to the poor for starting small businesses, such as a single-sewing machine stitching unit, a fruit and vegetable street cart, a bicycle rickshaw and so on for a period of 1–3 years. These loans were repayable in small monthly instalments. Given that most microfinance clients could not offer any physical collateral against loans, MFIs used an alternative method called 'social collateralization'. In this method, MFIs employed 'Loan Officers' who helped people apply for microloans by facilitating the creation of a group of borrowers and providing trainings on the application process, including the MFI's rules and regulations. For each loan extended to a group member, the remaining group members provided guarantees. In case a group member failed to return the loan, the entire group would be barred from future lending. The model worked as an alternative to physical collateral to MFIs as the group members kept each other under check for the return of the loan and misuse of funds.

MFIs borrowed most of their capital from financial institutions in order to generate loans. In some cases, government organizations would set up consortia of financial institutions that would facilitate the provision of capital to MFIs. MFIs would add their operational costs to the interest charged by these lending institutions that would result in subsequent higher interest rates charged by the MFI. For example, in Pakistan in 2013, interest rates in the microfinance sector reached an average of 27 per cent (Pakistan Microfinance Network, 2013), as compared to an average interest rate of 13 per cent offered by commercial banks.[1]

Microfinance in Pakistan

In Pakistan, the market for microfinance was vast. Unable to receive bank loans, the poor resorted to informal means of obtaining loans, such as requesting family and friends, or borrowing from the rural elites. With the success of the Grameen Bank in Bangladesh, the concept of microfinance was seen as a viable method of providing financial access to the extremely poor population of Pakistan.

The concept of microfinance was popularized in Pakistan through Rural Support Programmes in the 1990s. Most of these programmes were set up as partnerships between public and non-profit organizations. Moreover, in 1997, the Pakistan Poverty Alleviation Fund (PPAF) was established as a consortium of financial institutions that would provide MFIs with easy access to capital. In 2001, the first professional microfinance association, called the Pakistan Microfinance Network (PMN), was formed. PMN focused on supporting microfinance service providers to enhance their scale of operation and quality of service and subsequently encouraged formal microfinance banks to emerge in Pakistan as well. As a result, First MicroFinance Bank (2002), Tameer Microfinance Bank Ltd, Apna Microfinance Bank Ltd (2005) and Kashf Microfinance Bank (2008, Lahore) emerged. By 2013, there were forty-two MFIs in the country, with 2.4 million active loans and PKR 46.6 billion outstanding (Pakistan Microfinance Network, 2013).

History of Akhuwat

Back in 2001, Dr Amjad Saqib was working for the Punjab Rural Support Programme (PRSP), a non-profit organization he had joined in 1998 after having served in the Pakistani civil service for several years. The main activity of PRSP at that time was poverty alleviation through microfinance. Dr Saqib greatly appreciated the benefits of microfinance to the poor and admired the innovation of social collateralization. However, he also felt that the practice of charging higher interest rates to the poor was unfair.

In fact, Dr Saqib believed that the poor should not be charged any interest at all. This belief led him to establish an organization that benefited from the poverty alleviation approach of microfinance but covered operational costs through philanthropic donations. Thus, Akhuwat was born in March 2001. Its overall vision was to create a poverty-free society on the tenets of compassion and equity (Akhuwat), based on Dr Saqib's personal philosophy and experiences in the microfinance industry. He called Akhuwat's microloans 'Qarz-e-Hassan' (literally meaning *the best form of a loan*), a concept used in Islamic texts to describe non-oppressive lending practices.

The word 'Akhuwat' meant 'brotherhood', and was chosen to represent the vision of the organization:

> To alleviate poverty by empowering socially and economically marginalized families through interest-free microfinance and by harnessing entrepreneurial potential, capacity building and social guidance. (Akhuwat)

Akhuwat had started off with a single loan of PKR 10,000 (approximately USD 162—please refer to Table 2 for the yearly average exchange rate of the US Dollar against the Pakistani Rupee), given to a female borrower for a small tailoring shop in her house. The loan had to be returned in 1 year in the form of small monthly instalments. Dr Amjad gave this loan from his own pocket and funded subsequent loans and operational expenses himself and with the help of his friends.

However, within a few years, it became apparent that Akhuwat's microfinance model was more successful than Dr Saqib had anticipated. Not only did the organization continue to meet its operational costs, but its outstanding loan portfolio also grew rapidly from PKR 770,400 in 2001 to approximately PKR 240 million by 2011.[2] Further details on Akhuwat's finances over the years have been provided in Table 1.

Table 1. Akhuwat's Key Indicators

Year	Number of Branches	Active Loans	Outstanding Loan Portfolio (PKR)*	No. of Full-time Employees	Recovery Percentage
2001	1	154	770,400	3	100
2003	2	271	1,423,501	3	99.95
2004	4	802	4,986,141	12	99.90
2005	7	2,862	17,700,490	32	99.95
2006	11	6,156	37,693,882	50	99.90
2007	18	8,734	50,136,563	75	99.50
2008	20	12,129	59,263,752	76	99.37
2009	22	14,599	95,120,445	90	99.50
2010	36	19,562	128,508,746	184	99.85
2011	77	31,573	240,274,698	358	99.85
2012	153	67,337	798,022,125	505	99.86
2013	254	163,215	1,579,672,524	858	99.87
2014	289	235,517	2,460,870,594	1,474	99.85

Source: Organizational Documents and Audited Financial Statements.
Notes: * These are year-end figures and do not reflect the actual number of loans of the money disbursed during the year, as loans are given and repaid on a fortnightly basis throughout the year. Please refer to Table 2 for the yearly average exchange rate of the US Dollar against Pakistani Rupee.

Financial Management in the Early Years

From 2001 to 2009, Akhuwat relied heavily on charitable donations and contributions from people who shared its vision. Akhuwat's senior management and volunteers would often organize funding dinners, charity auctions, door-to-door campaigns and other fundraising activities in order to increase their financial resources. These resources then formed the lending base and were also consumed as operational expenses.

To prevent the donation pool from depleting, Akhuwat had only three employees for the first 3 years. Most of the work was done with the help of volunteers, including Dr Saqib himself. The paid staff consisted of people without strong educational or social backgrounds to lower the expenses and to have a workforce that could relate to its target population. Moreover, offices were minimalistic in terms of furniture and equipment and usually consisted of a small room that was donated to Akhuwat by the property owner. Most of the community work was done through religious spaces, such as mosques and churches, instead of rented facilities. Some branches had one or two computers that were donated by individual donors.

As a result, Akhuwat's administrative costs were considerably lower than the industry's. Table 3 provides a comparison of operational overheads for Akhuwat and a leading microfinance bank in Pakistan for the years 2012–2013.

As described by Rehan Hussain, Chief Financial Officer, Akhuwat made many sacrifices to keep the costs low:

Table 2. Yearly Average Exchange Rate of US Dollar Against Pakistani Rupee

USD/PKR	
Year	Average Rate (PKR)
2000	57.573015
2001	61.671542
2002	59.589692
2003	57.692543
2004	58.154265
2005	59.405597
2006	60.174152
2007	60.695999
2008	70.415773
2009	81.792389
2010	85.182993
2011	86.313836
2012	133.764597
2013	101.693465
2014	236.988289
2015	102.771680
2016	104.806789
Average	**86.981560**

Source: Canadian Forex: Foreign Exchange Services. http://www.canadianforex.ca/forex-tools/historical-rate-tools/yearly-average-rates

Akhuwat's employees have always ensured that all the money collected would be used for Akhuwat's cause. Akhuwat's office spaces are all shared, except for computer labs, and have no furniture. Everyone sits on the floor. Our senior management can easily charge half a million rupees per month for their services; not only that they don't charge a penny but they also donate to Akhuwat.

Chief Minister's Self Employment Scheme

Through his work in the civil service and PRSP, Dr Saqib had built strong professional relationships with several senior officials in the Punjab government. He also enjoyed the respect of Shahbaz Sharif, the Chief Minister (CM) of Punjab. By 2011, he was assisting the CM in two major initiatives of the provincial government, namely Punjab Education Endowment Fund (PEEF) and Punjab Welfare Trust for the Disabled (PWTD). It was at this time that the CM decided to entrust Akhuwat with the management of PKR 3 billion,[3] under the Chief Minister's Self Employment Scheme (CMSES) (Punjab Social Protection Authority).

Table 3. Operating Cost Comparison Between Akhuwat and a Leading Microfinance Bank (All Amounts in Thousands PKR)

Akhuwat			Leading Microfinance Bank		
	2013	2012		2013	2012
Outstanding Loan Portfolio	1,579,672	789,022	Outstanding Loan Portfolio	2,019	1,140
Operating Costs			Operating Costs		
Salaries, Wages, and Other Benefits	122,270	56,097	Salaries and Other Benefits	311,737	252,713
Contribution to Provident Fund	737,509	726	Contribution to Employee Provident Fund	12,549	10,873
Travel and Conveyance	14,742	7,501	Printing, Stationary, Periodicals	10,845	9,268
Printing and Photocopy	3,194	2,517			
Stationary	3,415	1,057	Advertisement	6,747	9,890
Communication	3,647	2,353	Rent	34,064	27,508
Office Supplies	2,076	743	Office Expenses	9,528	6,102
Consultancy Charges	5,170	2,245	Vehicle Expenses	9,037	7,980
Fee and Subscription	125	380	Insurance	1,939	1,531
Bank Charges	1,228	621	Office Security	17,731	11,036
Depreciation	2,261	801	Repair and maintenance	27,105	28,085
Audit	753	400	Communication	20,489	15,613
Utilities	1,893	869	Travel and Transport	35,642	24,592
Repair and Maintenance	933	1,837	Utilities	20,684	19,463
Rent	8,900	3,304	Legal and Professional	27,251	20,579
Staff Training	5,672	1,978	Auditor's Remuneration	1,800	1,230
Premium for Takaful Arrangement	–	3,033	Training and Research	6,665	5,109
			Depreciation	18,124	19,093
Donation to IDPs	1,073	3,291	Amortisation	16,999	15,701
Rehabilitation Expense	–	122	Others	867	230
Miscellaneous	3,899	684	–	–	–
Total	**181,995**	**90,569**	**Total**	**589,803**	**486,596**

Source: 2013 audited financial statements for both organizations.
Note: The audit firm was the same in both cases.

As narrated by Dr Saqib:

> In late 2011, I was in a meeting with the CM discussing the work of PEEF. At the end of the discussion, he asked me how Akhuwat was doing. I was pleased to tell him that, since its inception, Akhuwat had helped over 50,000 families with the money it had raised through charitable donations. The CM seemed quite impressed and asked if Akhuwat could double its outreach if its funding was doubled. Despite being confounded, I managed to utter an enthusiastic 'yes'. A few days later, I found out that the provincial government had selected Akhuwat as part of the Chief Minister Self-Employment Scheme.

Under CMSES, Akhuwat was given a total of PKR 3 billion during the years 2012–2014. These funds were provided to Akhuwat in the form of an interest-free loan through the Punjab Small Industries

Corporation. In the same year, Gilgit Baltistan, a province-level administrative territory of Pakistan, started its own CMSES with PKR 200 million[3] and chose Akhuwat as its implementing partner.

According to Dr Saqib:

> I have known Mr Sajjad Salim Hotiana, Chief Secretary of Gilgit Baltistan, since my days in the civil service. Soon after we partnered with the government of Punjab for the Self-Employment Scheme, Mr Hotiana convinced the Chief Minister of Gilgit Baltistan to follow in Punjab's footsteps. Furthermore, Akhuwat was also chosen for managing 25% of the Prime Minister of Pakistan's recently launched PKR 3.5 billion interest-free loan scheme.

By 2014, Akhuwat had grown into 289 branches in 186 cities all over Pakistan, including Azad Kashmir. It had processed over 600,000 loans with more than 200,000 loans still active. Its outstanding loan portfolio was now approximately PKR 2.5 billion[3] with a recovery rate—the rate at which loans were being returned to Akhuwat by the borrowers—of 99.85 per cent. In addition to the organizational expansion, Akhuwat's model had been replicated by over ten non-governmental organizations (NGOs). The number of employees had reached 1,474 and Dr Saqib estimated the operational costs to be 7.5 per cent of the disbursements. Please refer to Table 1 to see the growth of Akhuwat over the years.

While Akhuwat offered several services, its flagship product was the family enterprise loan, which comprised 91 per cent of its loan portfolio. This particular loan varied in the bracket of PKR 10,000–30,000; however, the most common amount for the first loan was PKR 15,000.[4] No loan, regardless of its type, was ever greater than PKR 40,000.

Akhuwat's Business Model

Loan Approval and Recovery Mechanisms

While Akhuwat did not share its organizational strategy and philosophy with mainstream MFIs in Pakistan, it did share a similar business model. Its key operatives were its loan officers who were responsible for community mobilization and the formation of lender groups.

Shahzad Akram, Chief Credit Officer at Akhuwat, remarked:

> Loan Officers are our grass root level workers. They are our biggest strength.

The loan officer was also responsible for preparing a report on community verification for the applicant and conducting an economic appraisal for the business. Applicant verifications were done through interviewing family members, neighbours and peers at religious congregations and other places of

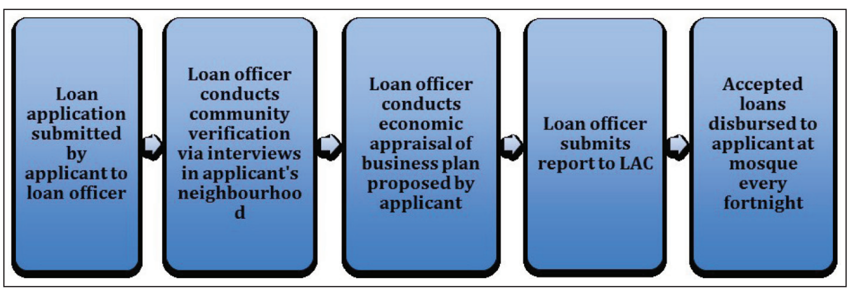

Figure 1. Akhuwat's Loan Approval Process

Source: Interview Responses and Organizational Documents.

convergence. Finally, a Loan Approval Committee (LAC) chaired by the Area Manager interviewed the applicant and reviewed the documents submitted. Applications were rejected if the business plan was deemed not viable or if the LAC was not satisfied with applicant verifications. Please refer to Figure 1 for a diagrammatical representation of Akhuwat's loan approval process.

Every fortnight, a ceremony was held in a mosque or a church and all approved loans were disbursed in public. All the approved applicants were invited to the ceremony, along with at least one guarantor or co-signer from the borrower's community group. To keep ghost loans under check, a staff member from a different area office was called in as a disburser. The disburser had the right to ask casual questions during the hand-over and even freeze payment to any applicant due to any doubts. A one-time flat application fee of PKR 100 was charged upfront on all applications. Even though this fee did not cover the entire expense of the application process, Dr Saqib felt that charging at least a nominal fee increased the sense of responsibility felt by the applicant. The loan was cancelled if the business did not start within 30 days of disbursement.

With regard to recovery, applicants were required to pay back their loans in the form of monthly instalments to be submitted at the branches. If a client failed to pay an instalment within 30 days of the due date, the loan was considered overdue. In this case, loan officers were sent to the field to counsel the client. The community group was also urged to advise, and if needed, put pressure on the client in this situation. If an instalment was 90 days overdue, the loan was declared a 'bad' loan. In such a case, the community group members or individual guarantors were asked to either furnish the unpaid instalments or face the risk of getting blacklisted.

In order to mitigate repayment risks related to emergencies and disasters, Akhuwat gave its clients the option to join its group Takaful (the insurance product in Islamic banking). The insurance was outsourced to a third party and could be bought at the time of loan disbursement and cost 1 per cent of the total loan amount. The insurance covered the entire amount owed in the cases of death and permanent disability of the clients and also provided some financial support to their families.

Akhuwat After Chief Minister's Self Employment Scheme

Akhuwat's average administrative overhead for its microfinance operations was about 7.5 per cent of loan amounts disbursed. However, the arrangement with CMSES allowed only for a 7 per cent overhead; the remainder came from donation funds raised by Akhuwat, which were also used to run its non-CMSES operations. It also redirected some of its fundraising efforts from the microfinance programme to its other initiatives, such as a cloth bank, a health services initiative, an educational assistance programme and a rehabilitation programme for transgender people. There was, therefore, no significant addition to the donation-based lending pool after the establishment of CMSES.

As Akhuwat expanded, people with stronger academic and professional credentials became part of the organization. Shahzad and Rehan, both chartered accountants, joined Akhuwat. Many others from different disciplines also joined Akhuwat. Branch expansion was carried out by creating a clone branch in the neighbouring area by the existing branch. The old branch supervised the training and operation of the new branch.

Shahzad further explained the concept behind this mode:

> It is a well-known Islamic tradition that when companions of our Holy Prophet (PBUH) migrated from the city of Mecca to the city of Medina, they had no money, food or resources. Each migrating companion was paired with a resident from Medina, who provided food and shelter. Thus, a brotherhood was created. We intended to do the same with our duplication model of expansion.

With regard to financial management of the growing number of branches, he noted:

> Even though branch managers were busy preparing other branches for operation, the quality of social mobilization, financial, and progress reports was never compromised. These reports were made just as they were in the previous years and we ensured that financial management did not suffer as a result of expansion.

Financial Sustainability

Despite its success, Akhuwat was often criticized for having a financial model that was deemed unsustainable in the microfinance industry. The government could recall its loan at any time if it was not satisfied with Akhuwat's performance. Moreover, the fact that it consumed its own lending base to meet its operational expenses was seen as an unsustainable practice. Most experts on banking and finance recommended that Akhuwat should charge at least some portion of its operational expenses to its clients. Dr Saqib, however, was not convinced.

He recalled having a conversation with Dr Yunus—from Grameen Bank—on this matter:

> I remember asking Dr Yunus if he thought it was fair to make poor people bear the cost of operations for a large organization. He said I was looking at it all wrong. He felt the MFIs provided a great service to the poor, so they must be kept sustainable and there was no alternative to charging overheads to the clients. Well, the alternative was Akhuwat.

Dr Saqib believed that Akhuwat could remain financially sustainable as long as the recovery rates were kept high, operational expenses were kept low and enough additional funds were raised every year.

He felt that Akhuwat never had trouble achieving these goals:

> My idea of sustainability is based on two observations from my life. Firstly, people with resources in Pakistan are always willing to help the poor. Secondly, the poor people of Pakistan are always keen on returning money that they borrow. That, for me, is the key to Akhuwat's sustainability. That is why you see Akhuwat maintaining a recovery rate above 99 per cent, even during times when some of the so-called 'sustainable' microfinance institutions were going bankrupt.

Dr Saqib was perhaps referring to the microfinance crisis that erupted across the subcontinent in the late 2000s. The crisis began in India in March 2006, where recovery rates of some MFIs fell as low as 10 per cent. Bangladesh—the origin of microfinance in the world—also faced similar problems. Pakistan also suffered from this crisis in 2008 when the loan recovery rate, especially in Punjab, fell as low as 30 per cent for some MFIs (Burki, 2009).

Dr Saqib believed that his idea of organizational sustainability had an empirical founding:

> It is not just repayment. A majority of Akhuwat's clients are now its donors. Whenever they come to pay their instalments, they also donate money. In fact, you will be surprised to hear that in 2013, we received over PKR30 million from our clients as voluntary contributions. Remember that these are people who live way beyond the poverty line, but they proved themselves to be way ahead in generosity and brotherhood.

Leadership and Succession

Dr Saqib saw almost all significant matters in Akhuwat till 2011–2012. However, with the expansion, most of the responsibilities were transferred to Shahzad, Rehan and the regional managers.

Shahzad explained some of the changes in leadership as:

> Dr Saqib oversaw each and every task in Akhuwat. He trained us and scores of other employees so that we could share the responsibilities. We now have separate heads for HR, Accounts, Internal Audits and IT, and a marketing and media team.

Dr Saqib also iterated the point:

> I feel like I have succeeded to make Akhuwat less dependent on me. Obviously, I like to stay involved just like a concerned parent, but I know Akhuwat will continue on the path to excellence even without me.

Performance Management at Akhuwat

After the advent of CMSES and Akhuwat's expansion (refer Figure 2 for Akhuwat's organizational structure), it became apparent that performance management in the organization needed to be revisited. Akhuwat was not given any formal monitoring and evaluation requirements by its institutional donors, except for annual financial audits and third-party loan monitoring. However, the monitoring processes prevalent in the microfinance industry had been incorporated into Akhuwat's business model, and some informal performance checks had developed indigenously in the organization.

Branch-level Monitoring

For a better performance, individual branches were given targets to maintain, in terms of a certain number of active loans. It varied from branch to branch, but on average it stood at around 1,200–1,500 active loans

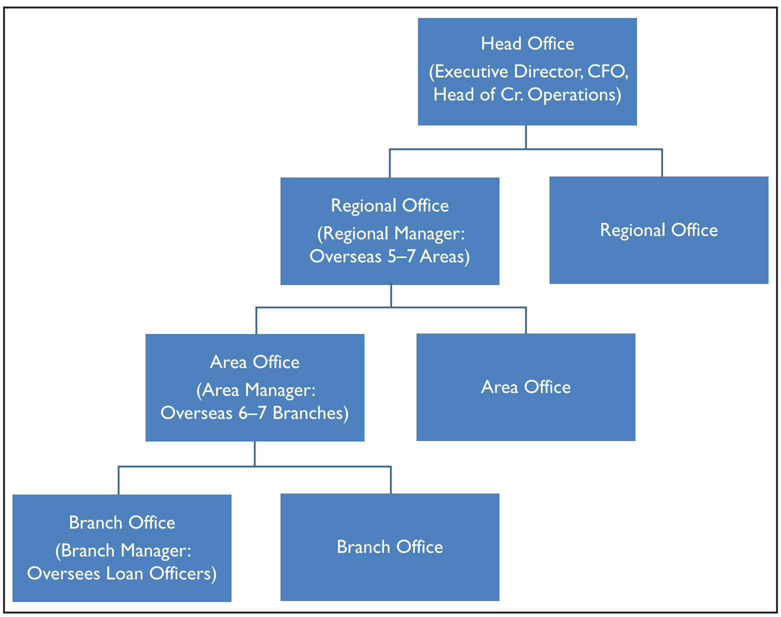

Figure 2. Akhuwat's Organizational Hierarchy

Source: Interview Responses and Organizational Documents.

at any given time. Branches maintained two journals—one containing the entry for all the applications received and the second maintaining a record of all the approved loans. Since recovery was also part of the branch's responsibility, monthly payment receipts were also kept in the branch's records while one copy was dispatched to the area office the next day. Each branch was also required to submit a financial statement and tally this data with bank data on a fortnightly basis. To check the effective functioning of a branch, a weekly visit by the area officer and random visits by a regional manager were made.

Branches also maintained a monthly progress report, which was the main monitoring tool at Akhuwat. Every month, each branch was required to send this report to Akhuwat's senior management, who would then track performance based on the given data. Every year, Akhuwat also verified 80 per cent of its active loans via physical verifications and surveys. These verifications were carried out at the branch level and all discrepancies were dealt with as soon as possible through informal communication routes. Unlike the monthly progress reports, however, data collected from these sources was not documented. According to Shahzad, 'We do not require formal reporting because it will be a burden on people already working at full capacity'.

Rehan believed that there was another reason as to why Akhuwat was not ready for documentation and computerization of all of its data at branch level:

> Most of Akhuwat's field staff is paid a minimum wage and lack the academic qualifications required for formally filing reports. However, they are very vigilant when it comes to informal reporting.

Area-level Monitoring

Approximately six or seven branches constituted an area in Akhuwat's hierarchy. Area offices were equipped with computers. All payment receipts were entered into the software, which maintained the record of every borrower, the amount of loan given, the amount recovered, the remaining amount and payment amount due that month. Each month, the area office made a report enlisting all active borrowers and delivered it to the respective branches that monitored it. The area office also acted as the accounts office for all branches and closed their cashbooks on a daily basis.

Head Office Monitoring

The head office closely monitored the recovery rates of different branches. It cut down funding if it felt that the recovery rate was decreasing until the rate stabilized. The head office did this based on a case-to-case basis assessment of a situation.

Random telephonic audits were also conducted by calling borrowers and getting qualitative feedback about branch performance. Questions related to the application processing times, customer service, the behaviour of the employees and whether any under-the-table monetary demands were made by the Akhuwat's employees for approving the loan were asked. The audits were done as needed, without any predefined frequency. However, none of the data collected was recorded.

Performance management also took place at the population level as places of worship were often used to make important decisions. During the loan application process, many beneficiaries were asked to give presentations and discuss their motives for borrowing money before an audience. This helped Akhuwat decide who would receive financial help and to what extent. Additionally, those who had already taken loans were asked to present their business model and progress to ensure that all the money loaned was being used for the purpose intended.

Internal Audits

In 2008, an Internal Audit Team was constituted directly under the command of Akhuwat's executive director and its board. This team visited each branch twice a year and collected data on the branch's financial performance, operational performance and its compliance with Akhuwat's loan disbursement and recovery standards.

According to Saeed Akbar, Akhuwat's Manager of Internal Audit:

> We collect data on all kinds of indicators. On the financial side, we record data on disbursements, recovery, overdue payments, donations, and cash at hand. On the process side, we take stock of all application forms and other application-related materials, and we inspect data on insurance. Finally, we examine the branch operations by checking records on HR, and rents and facility fees. We are also in the process of incorporating a social audit where we will verify the borrower's purpose of the loan and its proper utilization. In each visit, we verify the records of 50% of the branch's borrowers. Half of these verifications are done at the borrower's place of business.

Documentation and Reporting

Two different audit firms audited Akhuwat's accounts, one employed by Akhuwat itself and the other by the government of Punjab. The information from internal audits and branch progress reports were consolidated and published on Akhuwat's website from time to time, along with the financial audit reports.

Measuring Akhuwat's Impacts

For most MFIs in Pakistan, performance management was translated into monitoring, evaluation and reporting (MER), for which they had specialized departments. These departments periodically collected information similar to the contents of Akhuwat's branch progress reports. Conducting internal and external audits of financial statements and publishing audit reports were also standard practices within the microfinance industry. Several MFIs commissioned economic and social impact studies in their target areas, with varying frequencies. These studies were often funded through donor agencies and evaluated the situation regarding income, assets and employment statistics, as well as the quality of health and education in the area.

Akhuwat had not commissioned any such study on its own; however, it had facilitated researchers interested in conducting economic impact studies and case studies. The studies were published on Akhuwat's website for promotional purposes, but Dr Saqib did not find those very useful. He felt confident that Akhuwat had been successful in bringing about a positive economic impact. But he wondered how good economic assessments were when Akhuwat could not measure its real intended outcomes, that is, happiness, hope, compassion, mutual respect and a spirit of volunteerism and social support.

As Dr Saqib got ready to call it a day, he sent a text message to a friend who had offered to carry out an impact assessment for Akhuwat:

> I keep reading all these NGO impact studies and hardly any of these gives me useful information. What I really want to know is if Akhuwat's families and its partners are happier than they used to be, if Akhuwat has been able to establish a bond of brotherhood between haves and have-nots and encouraged people to help each other more, and if it has made society more compassionate and tolerant. Do the poor think that they are not left alone in this

market-led economy? Has the spirit of sacrifice and brotherhood re-kindled in them? Has the use of religious places improved inter-faith harmony? Is there an impact assessment that can measure all these things?

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this case.

Funding

The authors received no financial support for the research, authorship and/or publication of this case.

Notes

1. Calculated by 1 year Karachi Interbank Offered Rate (KIBOR) (Oct' 13) + 2.5 per cent for business loans.
2. The yearly average exchange rate of US Dollar against Pakistani Rupee was approximately PKR61.67 to USD1 in 2001 and PKR86.31 to USD1 in 2011. Please refer to Table 2 for the average yearly exchange rate of the US Dollar against the Pakistani Rupee.
3. Please refer to Table 2 for the average yearly exchange rate of the US Dollar against the Pakistani Rupee.
4. For a detailed description of Akhuwat's products, please visit http://www.akhuwat.org.pk/loan_products.asp

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